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SUBJECT: Dubai Debt Crisis: Treasury Acting A/S Baukol's Meetings
with Dubai and UAE Federal Officials

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REASON: 1.4(B), (D)

¶1. (C) Summary: Dubai and UAE Federal officials sought to reassure Treasury Acting Assistant Secretary Andrew Baukol that the Dubai debt crisis was on the road to resolution, with effective measures being developed through legislation to ensure such over-borrowing would not occur in the future, neither in Dubai nor any of the other Emirates in the seven-Emirate UAE federation. Officials acknowledged berrorsb in coordination, timing and ultimately judgment in Dubai Worldbs November 25 standstill announcement, and indicated that hard lessons had been learned on the need for greater transparency and expertise in navigating the world of global finance. Dubai will breturn to its rootsb of merchant activity, tourism, port and banking services as it emerges from the crisis and seeks to rebuild its reputation, officials predicted. Dubaibs appointed Chief Restructuring Officer said that Abu Dhabibs December 15 \$10 billion infusion would see troubled Dubai World through the coming six months only. He would not predict whether additional bail out funds from Abu Dhabi would be needed following Dubai Worldbs restructuring effort. End Summary.

¶2. (C) Treasury Department Acting Assistant Secretary for International Affairs Andrew Baukol visited Dubai for meetings on the financial crisis December 16. He met with UAE Federal Minister of Finance Obaid al Tayer; Dubai Department of Finance Director General Abdel Rahim al Saleh; Investment Corporation of Dubai Managing Director Abdulaziz al Muhairi; Dubai Support Fund Director Marwan Abedin; and Dubai Chief External Restructuring Officer Aiden Birkett. AA/S Baukol was accompanied by Treasury Office Director for Middle East/North Africa Francisco Parodi and UAE Treasury Attache Matthew Epstein. Consul General and DubaiEconoff attended the meetings.

Hard Lessons

¶3. (C) UAE Federal Minister of Finance Obaid Al Tayer told AA/S Baukol that despite the worldwide uproar surrounding Dubaibs debt crisis, the UAE economy remained fundamentally strong. bWe are fine,b he said. Overall, the UAEbs response to the global economic downturn had been sound, he asserted. The government had played an effective role in shoring up the economy, in particular through Central Bank support for the UAE banking system. The Nakheel sukuk episode was an exception, not the rule. That said, he acknowledged berrorsb in Dubaibs handling of the Nakheel standstill announcement. Poor timing, combined with a lack of coordination preceded the November 25 announcement. Officials were not prepared for the media storm that ensued, with many already on holiday (Eid al Adha, then UAE National Day), and therefore unable to develop or deliver an effective response. Things are getting better, he said, with only eight days passing between the UAEbs December 6 breturn to workb and the December 14 announcement of the \$10 billion cash injection from Abu Dhabi.

14. (C) Dubai and the UAE had learned some hard lessons from these events. One was the need for greater transparency (the importance of which was emphasized up front by AA/S Baukol). Required now are sound decisions, including a commitment to deal equally with all creditors, whether short-term bond holders or long-term holders of bank debt, he said. Accurate and timely release of information, and not just public relations were critical to restore Dubai's credibility with financial markets. (Note: Al Tayer appeared to be cautioning against papering over Dubai's problems with high-priced public relations tactics. Dubai has recently retained the Brunswick Group to guide its public relations response to the crisis. The comprehensiveness of the December 14 statement is seen as partly a reflection of this outside PR talent. End Note.) The UAE is already unique in the GCC in terms of openness, tolerance and the promotion of trade and economic development, Al Tayer said. Coming through this experience will make us all a lot wiser and the country much, much stronger, he declared.

A Strengthened Federation and Back to Basics in Dubai

15. (C) Crucially, Al Tayer saw upside to the crisis in a strengthening of the federal role in directing and coordinating future economic development decisions. In the immediate term, this would be seen through the effort to establish an effective national public debt policy. A law to guide the effort is already in draft before the UAE's legislative body, the Federal National Council. Al Tayer said the government intends to strengthen the draft law's provisions to require each Emirate to appoint a public debt officer whose responsibility is to monitor debt levels for government and semi-government entities and report those levels to a Federal Government coordinating body. Limits will be established vis-à-vis debt as a percentage of Emirate GDP. The crisis also demonstrates

the strength of the Dubai-Abu Dhabi relationship, Al Tayer insisted, and dismissed extensive foreign media reporting on rifts between the two as ill-informed.

16. (C) When asked what impact the debt crisis might have on the economic model pursued in Dubai over the past several years, Al Tayer responded: I find it unfortunate that anyone might consider what happened here over the past years part of a model. Dubai's true economic model was its history of promoting trade, banking and port services. That model remained fundamentally sound, he said. Dubai must get back to basics in order to revive its economic fortunes moving forward. This idea was echoed by ICD's Al Muhairi who added tourism to the mix identified by Al Tayer. Whatever else had happened, Dubai remained the business, trade and travel hub for a region of 1.5 billion people and would need to retreat to core competencies to maintain that position. Real Estate development, at the root of Nakheel's (and therefore Dubai's) problems, would take a back seat for many years to come.

Equity in Dealing with Creditors

17. (C) AA/S Baukol emphasized in his meetings the importance of equal dealings with Dubai's creditors. Al Tayer and the Dubai officials acknowledged the importance of that principle, though would not predict an outcome to the ongoing restructuring of Dubai World or other Dubai GRE debt. Importantly, DSF's Abedin said that the issue of overdue payments to contractors (some of whom are U.S. companies) would be a part of the government's response to the crisis in addition to settling debts with creditors. Consul General thanked the Dubai officials for acknowledging the importance of paying contractors, and reiterated the difficulty many U.S. firms have faced in getting through this extended period of non-payment for services rendered, mostly in the construction sector.

18. (C) Dubai Finance Department's Al Saleh said it was premature to suggest whether Dubai's discussions with creditors would lead to restructurings (e.g., haircuts on payback amounts) or refinancing (extended repayment terms), since auditors and consultants were only now digging into the details of the overall debt picture. Al Tayer said that Abu Dhabi's December 14 injection of an additional \$10

billion support would buy Dubai time to breally investigateb the extent of the problem and develop an effective strategy to work through it. bWe need to plan, and that takes getting into the numbers,b he said. Since there had been no system in Dubai to monitor overall debt levels or to evaluate performing versus non-performing GRE units, a solution could not be credibly developed until a comprehensive analysis was completed.

Message from the Chief Restructuring Officer

¶9. (C) AA/S Baukol also met with Aiden Birkett, a Deloitte executive appointed in October as Dubai Worldbs bChief Restructuring Officer.b Since his appointment, Birkett has maintained an extremely low profile, avoiding public exposure. He told AA/S Baukol that peering into Dubai Worldbs books was like bdrinking from a fire hose.b Dubai World had little to no internal auditing or restructuring expertise to support the Deloitte outsiders in their effort. The single most important accomplishment to date for his team was to get Dubai Worldbs cash flow under control, Birkett claimed. Birkett recognized that not all banks would be equally cooperative with Dubai Worldbs restructuring effort, but believed that most will ultimately agree with the terms set out. He added that UAE-based banks in particular were massively relieved by Abu Dhabibs USD 10 billion bailout.

¶10. (C) With respect to the USD 10 billion cash infusion from Abu Dhabi, Birkett claimed not to know whether there would be additional amounts provided, but said it was he who had requested the funds from the Government of Dubai. His restructuring team had also proposed the 6-month time frame for the Dubai World standstill and informed the Dubai government what they would need to see the restructuring effort through April. He did not reveal if the USD 10 billion was in fact the full amount his team requested. Birkett said that other Dubai GREs may need restructuring, but none would compare to Dubai World. Birkett also said that it was critical that the Government of Dubai pay off Nakheelbs sukuk because not doing so would likely have precipitated an insolvency at Nakheel and would have made the restructuring effort even more complicated. However, he said it may not have been the right time to pay off Nakheel bond holders, especially at par. Birkett claimed that after Dubai Worldbs restructuring is complete, many stakeholders and creditors will have taken sizeable haircuts in what is owed to them.

Comment

¶11. (C) After a short but punishing period where Dubai and UAE officials were unable or unwilling to meet the information demands of the international community and media, government officials are now eager to get their story of reassurance out. There is no bbunkeringb going on here, as seen in the willingness of government officials to meet and discuss the crisis. A belief persists that Dubai received unfair treatment in the press (indeed each of AA/S Baukolbs meetings with government officials included an extended rant on the subject), but officials also appear to be taking in the need for transparency and timeliness in addressing the crisis moving forward. End Comment.

¶12. (U) This cable was cleared by AA/S Baukolbs staff.
SIBERELL